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Meltdown in Russia

M O S C O W

The strange return of Viktor Chernomyrdin as Russia's prime minister is not halting the country's slide into monetary and political chaos

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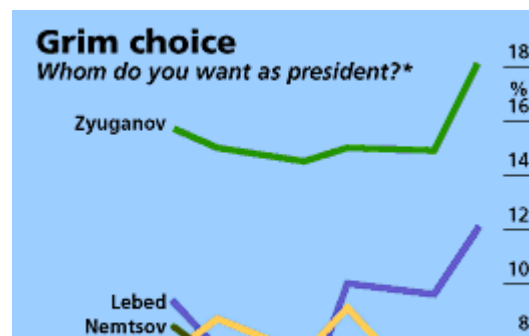
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RUSSIA'S crisis shows no sign of abating. The rouble plummets. Neither the president, Boris Yeltsin, nor his newly appointed prime minister, Viktor Chernomyrdin, looks in control. The country barely has a government. Foreign confidence—political and financial—goes on tumbling. Mr Yeltsin's presidency looks more hollow than ever. Power may, indeed, be slipping away from him.

In a humiliating decision on August 23rd, Mr Yeltsin felt obliged to reappoint as prime minister the man he had brutally sacked just five months before, probably on suspicion that Mr Chernomyrdin had his eye on the presidency. Now Mr Yeltsin has declared Mr Chernomyrdin his rightful heir. The word in Moscow is that, this time, the prime minister will have much greater latitude in running the show and choosing ministers. So far, however, he has yet to choose any, pending ratification of his own appointment by the Duma, Russia's cantankerous, Communist-dominated lower house of parliament. The outgoing prime minister, Sergei Kiriyenko, has gone, but at least some other ministers may be reappointed.

The appointment of Mr Chernomyrdin, Russia's greatest post-communist survivor (see [article](#)), has added to, rather than diminished, the prevailing chaos. "We are in the midst of meltdown," said a foreign banker this week. Sberbank, which holds most of the country's savings, has had to bring back restrictions on withdrawals. The mood outside branches of some of the most troubled banks has been ugly, as bank employees backed by gun-toting guards have been turning away depositors.





One suggestion is that dud banks should be closed down in order to save the good ones. But that might not be easy. Oleg Vyugin, a deputy finance minister, says the central bank could scrape together enough staff to run three banks under an emergency administration, but not enough to handle the 15 big ones needing most urgent help. Selling them to foreigners, if any could be found, has also been suggested. But that would be politically risky at the best of times, and looks impossible now. In any event, Russia's leading tycoons—the "oligarchs" who exert so much political influence—want their banks bailed out, not bankrupted (see [article](#)). By August 27th, the rouble had fallen by half since its devaluation ten days earlier. This week, trading on Moscow's moribund currency exchange was halted three times. The central bank's reserves, down to about \$13 billion, are dwindling by \$1 billion or \$2 billion a week.

The public finances, meant to be rescued by the devaluation and partial default of August 17th, still look dreadful. Credit Suisse First Boston, an investment bank, reckons that Russia needs \$4 billion to meet its foreign-debt repayments next year—even assuming, questionably, that the IMF and other lenders stump up \$7.8 billion as planned. Another default looms.

Better tax collection, which could plug some of the gap, looks as forlorn as ever. The richer Russian companies bribe or bully the tax inspectors to go away, leaving foreigners as the softest target. This is strangling the most stalwart and useful investors in Russia—those outsiders who have built factories and not just bought bonds. A group of them lamented this week that the taxman was driving them to despair. Andrea von Knopp, who represents German investors, said that inspectors wielding baseball bats had been visiting some of her members. Russia's tax collectors, she maintains, have been told to "collect \$1 billion from foreigners by the end of the month".

This financial Chernobyl is beginning to affect the real Russian economy, already stricken by unpaid bills, corrupt managers and low commodity prices (especially for oil and gas). The retail system has been hardest hit. Shops are already beginning to close for lack of customers, says Greg Thain, a Briton who runs a big Moscow-based market-research company. Wholesalers are taking goods back for fear of non-payment. Western importers are already scaling back. This will hit Russians far harder than the collapse of a few crooked banks or of a currency that few trusted very much anyway. For ordinary Russians, the spread of a functioning market in consumer goods—and the end of the once-ubiquitous shop queue—was the single biggest economic feat of the past turbulent decade.

The pain will be sharpest in Moscow, whose economy has flourished largely thanks to the bubble in financial services and to at least 50,000 high-earning foreigners, increasing numbers of whom are now heading home or contemplating new careers as consultants. This will puncture the city government's wobbly

finances, and maybe the political hopes of its ambitious mayor, Yuri Luzhkov, who wants to take over Mr Yeltsin's job.

One tell-tale sign was an announcement this week that the completion of the mayor's favourite project, an extravagant new cathedral near the Kremlin, had been put off for lack of cash. In recent days Mr Luzhkov has been unusually quiet.

But his troubles will look tame against Mr Chernomyrdin's if the crisis deepens, inflation and unemployment rise, and another debt default looms. And even if he does ride out the immediate storm, Mr Chernomyrdin's chance of winning a presidential election, whether held on schedule or earlier, must still be slim.

So does anyone gain from all this? The Communists, of course, led by Gennady Zyuganov, are in full cry—and wondering whether, for the first time since communism fell, to take a batch of ministries under Mr Chernomyrdin. Another figure who looks unflustered is Boris Berezovsky, perhaps Russia's biggest tycoon and best-known manipulator, who has been ostentatiously close to Mr Chernomyrdin this week. If he helps oversee the bank bail-out, he would have a chance to ditch rivals and strengthen his own hand.

Of the presidential hopefuls who have been limbering up alongside Mr Zyuganov, the populist former general, Alexander Lebed, who governs a Siberian province and growls against corruption, seems best placed. Mr Chernomyrdin, needless to say, has been sounding him out for support. Mr Lebed might be wise, however, to stay away in Siberia while politicians in Moscow are mocked and buffeted by events.

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